

Financial Statements
Gratiot County Community
Mental Health Services

Alma, Michigan

September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Gratiot County CMH Services		County Gratiot	
Fiscal Year End September 30, 2006		Opinion Date November 14, 2006		Date Audit Report Submitted to State March 19, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

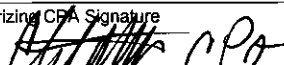
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Co., P.C.			Telephone Number (989) 463-6123	
Street Address 308 Gratiot Avenue			City Alma	State MI
			Zip 48801	
Authorizing CPA Signature 			Printed Name Chad Payton	
			License Number 21946	

Gratiot County Community Mental Health Services
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September 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Gratiot County Community Mental Health Services
Alma, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gratiot County Community Mental Health Services (the Board), as of and for the year ended September 30, 2006, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Board as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2006 on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, PC
Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 14, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

The management of Gratiot County Community Mental Health Services (GCCMHS) presents the following overview and analysis of the financial activities during the past year. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation.

Basic Financial Statements:

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information) which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information) which shows revenues and expenses and the change in net assets for the year.

Fund financial statements offer a series of statements that focus on major governmental funds. For GCCMHS, the major governmental fund is the General fund. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Financial Statements. Fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Summary of Net Assets:

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$3,061,834	\$2,934,665
Restricted assets	164,736	152,654
Capital assets	<u>1,275,885</u>	<u>1,406,665</u>
Total Assets	4,502,455	4,493,984
Liabilities		
Current liabilities	1,085,487	1,014,849
Noncurrent liabilities:		
Notes payable	639,216	711,479
Compensated absences	<u>182,284</u>	<u>170,421</u>
Total Liabilities	1,906,987	1,896,749
Net Assets		
Invested in capital assets, net of related debt	564,406	624,810
Reserved for risk management	27,276	27,140
Unrestricted	<u>2,003,786</u>	<u>1,945,285</u>
Total Net Assets	\$2,595,468	\$2,597,235

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Current assets consist of cash and cash equivalents, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others, deferred revenue and the current portion of notes payable.

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position. The 2006 current financial position is \$1,976,347 an increase of \$56,531 from the 2005 current financial position.

Restricted assets consist of a certificate of deposit. These assets are restricted for payment of compensated absences.

Net assets restricted for risk management are related to the risk obligations for the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance in this account was \$27,276.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value, net of the accumulated depreciation.

Noncurrent liabilities consist of the liability for compensated absences, which includes vested vacation and sick pay obligations, as well as the long-term portion of notes payable used to acquire and improve buildings.

Unrestricted net assets at the end of 2006 were \$2,003,786 an increase of \$58,501 from 2005. Unrestricted net assets were 45% of total assets, up 2% from the prior year.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Summary of Activities:

The following summarizes the revenues, expenses and excess of revenues over (under) expenses on a government-wide basis for the years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Revenues		
Department of Community Health Contract	\$1,388,605	\$1,299,040
Charges for services	7,560,846	7,719,105
Grants and earned contracts	170,407	296,654
County appropriation	200,000	200,000
Interest income and rents	75,796	49,526
Other revenue income	<u>161,462</u>	<u>145,605</u>
Total Revenues	9,557,116	9,709,930
Expenses		
Personnel costs	4,378,815	4,291,707
Operating expenditures	5,007,282	5,188,511
Interest on long term debt	42,006	53,271
Depreciation expense	<u>130,780</u>	<u>177,841</u>
Total Expenses	9,558,883	9,711,330
Excess of Revenues over (under) Expenses	\$(1,767)	\$(1,400)

Total revenues for the year were \$9,557,116, a decrease of \$152,814 from the prior year.

Charges for services include Medicaid based on a contract with CEI for \$7,451,003 other Medicaid funding of \$57,892, client and third party pay of \$50,897, and other charges for services of \$1,054.

Grants and earned contracts include revenue sources for which the use of funds is restricted to a specific purpose. These grants and earned contracts represent 2% of total revenue and have decreased \$126,247 from the prior year.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

County appropriation revenue, interest income, rents, and other local income are available to meet state matching-fund requirements. County appropriation revenue was unchanged. Interest income, rents and other local income constitute 2% of revenue and have increased \$42,127 from the prior year.

Total expenses for the year were \$9,558,883, a decrease of \$152,447 from the prior year. Personnel costs were 46% of total expense and have increased \$87,108. Operating expenditures were 52% of total expense and have decreased \$181,229 from the prior year.

Notes to Financial Statements:

The notes to the financial statements, which immediately follow the financial statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the financial statements.

Under the contractual requirements issued by the Michigan Department of Community Mental Health (MDCH), GCCMHS began in FY 2002-2003 receiving sub-capitation Medicaid funding directly from Clinton Eaton Ingham (CEI) Community Mental Health. CEI Community Mental Health is the regional Prepaid Inpatient Health Plan (PIHP) responsible for administering mental health and substance abuse services for an eight county affiliation consisting of Clinton, Eaton, Ingham, Ionia, Gratiot, Newaygo, Manistee and Benzie Counties.

The affiliation, known as the Community Mental Health Affiliation of Mid-Michigan (CMHAMM), operates under an agreement pursuant to the Intergovernmental Transfer of Functions and Responsibilities Act. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

The sub-capitated arrangement that GCCMHS has with CEI requires CEI to make a monthly payment to each CMH in the affiliation for Medicaid recipients living in their respective counties. This sub-capitated arrangement allows GCCMHS to provide needed mental health services with great flexibility, as long as GCCMHS complies with Medicaid standards and requirements. The state's Medicaid Mental Health and Substance Abuse Waiver renewal in late 2003 reinforced the requirement on CEI to ensure that Medicaid services are available, accessible, and medically necessary to meet the mental health and developmental disability needs of all of the Medicaid enrollees across the eight county region. This was reinforced through the requirement that the MDCH pay CEI Community Mental Health a single set of Medicaid rates for all of the Medicaid recipients living in the eight counties for which CEI is responsible.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Financial Comparisons:

The fiscal year 2006 final budget adopted by the governing board was \$9,389,431 of Revenues and \$9,170,182 of Expenses with an addition to fund balance of \$219,249. The Actual compared to Budget is presented below.

	Actual	Budget	Variance
Revenues	\$9,556,980	\$9,389,431	\$167,549
Expenses	\$9,486,616	\$9,170,182	(\$316,434)

A comparison of fiscal year 2006 to fiscal year 2005 is presented below.

	2006	2005	Variance
Revenue	\$9,556,980	\$9,709,795	(\$152,815)
Expenses	\$9,486,616	\$9,726,182	(\$239,566)
Revenues over/(under) Expenses	\$70,364	(\$16,387)	\$86,751

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Future Outlook:

The funding formula implemented for the 05/06 Fiscal Year involved a chart review analysis to determine Board specific severity factors. Regional rates were multiplied by the severity factor for each population and age group.

A new process was implemented for Fiscal Year 06/07 to provide affiliates with additional funding above regional rates to help cover the high costs of "Shadow C" consumers. "Shadow C" consumers are severely developmentally disabled consumers who require a higher level of service but were not able to get the higher funding rate from the Habilitation Support Waiver 1915(c) slot due to limited availability. GCCMHS relies on this additional funding due to the proportionately high number of former State Institutionalized consumers, who meet the severity of need criteria, and were placed in Gratiot County without the needed slots.

Other funding is expected to remain relatively stable. The State of Michigan continues to struggle to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown. In anticipation of possible funding changes, programs and services are continually being reviewed.

Management expects State revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Gratiot County Community Mental Health Services
Statement of Net Assets
September 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$2,801,520	\$2,683,275
Accounts receivable	9,999	1,517
Due from other governmental units	116,106	153,014
Prepaid expenses	134,209	96,859
Total current assets	3,061,834	2,934,665
Noncurrent assets		
Restricted cash	164,736	152,654
Capital assets - depreciable, net	1,100,185	1,230,965
Capital assets - land	175,700	175,700
Total noncurrent assets	1,440,621	1,559,319
Total assets	4,502,455	4,493,984
Liabilities		
Current liabilities		
Accounts payable	530,598	626,911
Accrued wages and other payroll liabilities	279,731	64,561
Due to other governmental units	183,442	193,100
Deferred revenue	19,453	59,901
Current portion of long term debt	72,263	70,376
Total current liabilities	1,085,487	1,014,849
Noncurrent liabilities		
Compensated absences	182,284	170,421
Notes payable	639,216	711,479
Total noncurrent liabilities	821,500	881,900
Total liabilities	1,906,987	1,896,749
Net Assets		
Invested in capital assets, net of related debt	564,406	624,810
Reserved for risk management	27,276	27,140
Unrestricted	2,003,786	1,945,285
Total net assets	\$2,595,468	\$2,597,235

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Activities

For the year ended September 30, 2006, With Comparative Data

Functions	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2005
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities				
Health & Welfare - Mental Health	\$9,558,883	\$7,560,846	\$1,956,592	(\$25,211)
General revenues				
Unrestricted investment earnings			39,542	23,676
Restricted investment earnings			136	135
Total general revenues and contributions			39,678	23,811
Change in net assets			(1,767)	(1,400)
Net assets - beginning of year			2,597,235	2,598,635
Net assets - end of year			\$2,595,468	\$2,597,235

See Accompanying Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

Gratiot County Community Mental Health Services
Balance Sheet
Governmental Funds
September 30, 2006 and 2005

	General Fund	
	2006	2005
Assets		
Cash and cash equivalents	\$2,774,244	\$2,656,135
Accounts receivable	9,999	1,517
Due from other governmental units	116,106	153,014
Restricted cash	164,736	152,654
Prepaid expenses	134,209	96,859
Total assets	<u>\$3,199,294</u>	<u>\$3,060,179</u>
Liabilities		
Accounts payable	\$530,598	\$626,911
Accrued wages and other payroll liabilities	279,731	64,561
Due to other governmental units	183,442	193,100
Deferred revenue	19,453	59,901
Total liabilities	<u>1,013,224</u>	<u>944,473</u>
Fund balances		
Reserved for prepaid expenses	134,209	96,859
Unreserved	2,051,861	2,018,847
Total fund balances	<u>2,186,070</u>	<u>2,115,706</u>
Total liabilities and fund balances	<u>\$3,199,294</u>	<u>\$3,060,179</u>

See Aecompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
To Net Assets of Governmental Activities on the Statement of Net Assets
For the year ended September 30, 2006

Total fund balance - governmental funds	\$2,186,070
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add: capital assets	2,434,593
Deduct: accumulated depreciation	(1,158,708)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	27,276
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Some liabilities are not due and payable in the current period and
therefore are not reported in the funds. Those liabilities consist of:

Deduct: Notes payable	(711,479)
Deduct: Compensated absences	(182,284)

Net assets of governmental activities	<u>\$2,595,468</u>
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See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the years ended September 30, 2006 and 2005

Revenues	General Fund	
	2006	2005
State Grants		
Department of Community Health Contract	\$1,388,605	\$1,299,040
Other	7,988	6,859
Total state grants	<u>1,396,593</u>	<u>1,305,899</u>
Federal grants		
Federal block grants	48,526	117,785
OBRA grant	70,593	70,198
Total federal grants	<u>119,119</u>	<u>187,983</u>
Contributions - local units		
County appropriations	200,000	200,000
Other - FIA grants	51,288	108,671
Total contributions - local units	<u>251,288</u>	<u>308,671</u>
Charges for services		
Medicaid - CEI Contract	7,451,003	7,609,301
Medicaid - other	57,892	59,339
Client and third party pay	50,897	48,888
Other charges for services	1,054	1,577
Total charges for services	<u>7,560,846</u>	<u>7,719,105</u>
Interest and rents		
Interest	39,542	23,676
Rents	36,118	25,715
Total interest and rents	<u>75,660</u>	<u>49,391</u>
Other revenue		
United Way	19,062	11,710
Miscellaneous	134,412	127,036
Total other revenue	<u>153,474</u>	<u>138,746</u>
Total revenues	9,556,980	9,709,795

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the years ended September 30, 2006 and 2005

	<u>General Fund</u>	
Expenditures	<u>2006</u>	<u>2005</u>
Health & Welfare - Mental Health		
Personnel costs	\$4,366,952	\$4,282,493
Operating expenditures	5,007,282	5,188,511
Capital outlay	-	138,321
Debt service payments	<u>112,382</u>	<u>116,857</u>
Total expenditures	<u>9,486,616</u>	<u>9,726,182</u>
Revenues over (under) expenditures	70,364	(16,387)
Fund balance, beginning of year	<u>2,115,706</u>	<u>2,132,093</u>
Fund balance, end of year	<u><u>\$2,186,070</u></u>	<u><u>\$2,115,706</u></u>

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the year ended September 30, 2006

Net change in fund balances - total governmental funds	\$70,364
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Deduct: depreciation expense	(130,780)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of this fund is reported within governmental activities.	
Add: net revenue (expense) from governmental internal service fund	136
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
Add: principal payments on long term debt	70,376
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	<u>(11,863)</u>
Change in net assets of governmental activities	<u><u>(\$1,767)</u></u>

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Net Assets
Proprietary Funds
September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	<u>\$27,276</u>	<u>\$27,140</u>
Liabilities	-	-
Net Assets		
Restricted	<u>\$27,276</u>	<u>\$27,140</u>

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the years ended September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Non-operating revenues (expense)		
Interest income	<u>\$136</u>	<u>\$135</u>
Change in net assets	136	135
Net assets, beginning of year	<u>27,140</u>	<u>27,005</u>
Net assets, end of year	<u><u>\$27,276</u></u>	<u><u>\$27,140</u></u>

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Cash Flows
Proprietary Funds
For the years ended September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities	-	-
Cash flows from investing activities		
Proceeds from interest earnings	<u>\$136</u>	<u>\$135</u>
Net increase (decrease) in cash	136	135
Cash and cash equivalents, beginning of year	<u>27,140</u>	<u>27,005</u>
Cash and cash equivalents, end of year	<u><u>\$27,276</u></u>	<u><u>\$27,140</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

See Accompanying Notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Gratiot County Community Mental Health Services
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gratiot County Community Mental Health Services (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Board operates as a Community Mental Health Board under the provisions of Act 258 - Public Acts of 1974, as amended. The Board provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Gratiot County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Board has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Budgetary Data

The Board adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Restricted Cash Equivalents

The Board has charged to the Department of Community Health the vested portion of compensated absences as of September 30. The Board holds a certificate of deposit for payment of the compensated absences liability, which is renewed on an annual basis.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan and Gratiot County.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Board does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Board are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings	15 – 25
Equipment	3 – 20
Vehicles	4

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Board. This liability is included in accounts payable and due to other governmental units.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Deferred Revenue

Deferred revenues arise when resources are received by the Board before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are examples of the latter.

MDCH Revenue

General Fund Revenue

The Board provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Gratiot County.

Medicaid Revenue

Also, the Board contracts to receive Medicaid revenue through the Community Mental Health Affiliation of Mid-Michigan for Medicaid-qualified services rendered to residents of Gratiot County. The Community Mental Health Affiliation of Mid-Michigan contracts with the MDCH to administer these Medicaid funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2006, the Board incurred expenditures in excess of the amounts appropriated as shown on page 25 of this report as unfavorable variances.

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

	2006	2005
Petty cash	\$500	\$600
Cash deposits	1,844,696	1,755,998
Certificates of deposit	1,121,060	1,079,331
Totals	\$2,966,256	\$2,835,929

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. At September 30, 2006, the carrying amount of the Board's deposits was \$2,965,756, and the bank balance was \$3,309,300. Of the bank balance, \$204,873 was covered by federal depository insurance and \$3,104,427 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Gratiot County Community Mental Health Services
Notes to Financial Statements

A reconciliation of deposits as shown above follows:

	2006	2005
Cash and cash equivalents – current assets	\$2,801,020	\$2,682,675
Cash and cash equivalents – restricted assets	164,736	152,654
Totals	\$2,965,756	\$2,835,329

Investments

State statutes authorize the Board to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2006, the Board had no such investments.

The Board's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Board's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. The Board requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Board does not have any additional policies for custodial credit risk over investments.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Board's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Board places no limit on the amount it may invest in any one issuer.

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2006	2005
State of Michigan – Medicaid	\$5,712	\$21,061
Department of Community Health – Various Grants	24,799	32,403
Gratiot FIA	14,155	23,260
Gratiot County	50,000	50,000
Other Governmental Units	21,440	26,290
Total	\$116,106	\$153,014

Gratiot County Community Mental Health Services
Notes to Financial Statements

Changes in Capital Assets

A summary of changes in capital assets is as follows:

Assets	Beginning Balance	Additions	Disposals	Ending Balance
Buildings / Land	\$1,470,879	-	-	\$1,470,879
Equipment	314,466	-	-	314,466
Vehicles	649,248	-	-	649,248
Sub-totals	2,434,593	-	-	2,434,593
Accumulated depreciation	(1,027,928)	(\$130,780)	-	(1,158,708)
Totals	\$1,406,665	(\$130,780)	-	\$1,275,885

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2006	2005
Department of Community Health – Inpatient Services	\$60,945	\$1,379
Department of Community Health – Cost Settlement	-	1,954
CEI Community Mental Health Authority	122,497	93,328
Other Community Mental Health Agencies	-	96,439
Totals	\$183,442	\$193,100

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Deferred Revenue

The amount reported as deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Long-Term Liabilities – Compensated Absences

Board policy allows full time employees to accumulate “paid time off” at various rates, depending on the employee’s length of service with the Board. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used or upon termination of employment, provided the employee has worked for the Board for at least one year. As of September 30, 2006 and 2005, this liability was \$182,284 and \$170,421, respectively.

Long-Term Liabilities – Building Loans

Building Loan – Wright Avenue

During the 2001 fiscal year, the Board entered into a contract with a local bank to purchase real estate. Payments are due monthly in the amount of \$4,475, including interest at the rate of 5.25% per annum.

Building Loan – Warwick Street

During the 2003 fiscal year, the Board entered into a contract with the County of Gratiot to purchase real estate. Payments are due annually equal to the debt service requirements the County must pay for the related bond issue. Principal payments vary from \$25,000 to \$50,000 per year, and interest rates are from 7.3% to 7.8% per year.

Building Loan – Miller Property

During the 2003 fiscal year, the Board entered into a contract with a local bank to purchase real estate. Payments are due monthly in the amount of \$843, including interest at the rate of 4.75% per annum.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2006 are as follows, including total interest payments of \$71,806:

Year Ended September 30,	Amount
2007	\$111,062
2008	569,618
2009	50,655
2010	51,950
2011	-
2012-2016	-

Gratiot County Community Mental Health Services
Notes to Financial Statements

During the year, the following changes occurred in long-term debt:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$170,421	\$11,863	-	\$182,284
Building Loan – Wright Avenue	422,788	-	\$32,272	390,516
Building Loan – Warwick Street	210,000	-	35,000	175,000
Building Loan – Miller Property	149,067	-	3,104	145,963
Totals	\$952,276	\$11,863	\$70,376	\$893,763

Operating Leases

The Board has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the leased assets are not reflected in the government-wide financial statements.

The future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, are as follows:

Year Ended September 30,	Amount
2007	\$29,494
2008	24,394
2009	24,394
2010	22,361
2011	-

Pension Plan

Plan Description

The Board allows certain employees to participate in the Gratiot County Community Mental Health Employee Alternative Retirement Plan (the Plan). This plan is a defined contribution money purchase pension plan and the Plan administrator is the Chief Financial Officer of the Board. Effective May 1, 2002, all employees of the Board are eligible to participate in the Plan, which provides retirement and death benefits to members and their beneficiaries.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Funding Policy

Employees contribute a mandatory 6.2% of their compensation to this plan. The Employer will contribute a Money Purchase contribution of 7.5% of compensation. Additionally, the employees may be entitled to share in a discretionary profit sharing contribution made by the employer. For the 2006 and 2005 year, this discretionary contribution totaled 6.2% and 6.2% of compensation, respectively.

For the September 30, 2006 and 2005 fiscal year, employer contributions to the plan totaled \$407,580 and \$395,687, respectively. The total payroll for the year ending September 30, 2006 and 2005 was \$3,400,474 and \$3,281,263, respectively.

Employee contributions and the employer discretionary profit sharing contributions vest 100% immediately. The vesting schedule for the employer money purchase contribution is as follows: 0% for the first 2 years of service, 50% after 3 years of service, 75% after 4 years of service, and 100% after 5 years of service.

Compliance Audits

The Board participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Risk Management

The Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Board has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Risk Management – Internal Service Fund

During the September 30, 1998 fiscal year, the Board authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Board finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Board by the contract.

REQUIRED SUPPLEMENTAL INFORMATION

Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2006

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local	\$265,710	\$265,710	\$480,422	\$214,712
State	8,992,052	8,992,052	8,957,439	(34,613)
Federal	131,669	131,669	119,119	(12,550)
Total revenues and other financing sources	<u>9,389,431</u>	<u>9,389,431</u>	<u>9,556,980</u>	<u>167,549</u>
Expenditures				
Health and Welfare	9,057,799	9,057,799	9,374,234	(316,435)
Debt service	<u>112,383</u>	<u>112,383</u>	<u>112,382</u>	<u>1</u>
Total expenditures	<u>9,170,182</u>	<u>9,170,182</u>	<u>9,486,616</u>	<u>(316,434)</u>
Revenues over (under) expenditures	219,249	219,249	70,364	(148,885)
Fund balance, beginning of year	<u>2,115,706</u>	<u>2,115,706</u>	<u>2,115,706</u>	<u>-</u>
Fund balance, end of year	<u><u>\$2,334,955</u></u>	<u><u>\$2,334,955</u></u>	<u><u>\$2,186,070</u></u>	<u><u>(\$148,885)</u></u>

See Accompanying Notes to Financial Statements.

OTHER SUPPLEMENTAL INFORMATION

Gratiot County Community Mental Health Services
Supporting Schedule of Personnel Costs
For the years ended September 30, 2006 and 2005

	General Fund	
	2006	2005
Personnel Costs		
Salaries And Wages	\$3,400,474	\$3,281,263
Fringe Benefits	966,478	1,001,230
 Total Personnel Costs	 \$4,366,952	 \$4,282,493

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Supporting Schedule of Operating Expenditures
For the years ended September 30, 2006 and 2005

	General Fund	
	2006	2005
Operating Expenditures		
Conferences	\$41,680	\$29,711
Contractual services	2,791,016	3,129,609
Dues / subscriptions	13,990	9,480
Indigent hospitalization	285,558	247,859
Institutional cost	275,027	228,239
Insurance	84,926	88,188
Mid-Michigan Industries program	356,774	304,638
Other	30,659	30,287
Printing / publishing	6,265	8,176
Rehabilitation costs	22,130	17,545
Rental	145,540	152,368
Repairs and maintenance	217,352	189,394
Respite care	72,914	99,824
Small equipment purchases	105,072	67,764
Supplies	258,595	287,192
Telephone	89,188	93,566
Travel & transportation	99,832	97,258
Utilities	110,764	107,413
 Total operating expenditures	 \$5,007,282	 \$5,188,511

See Accompanying Notes to Financial Statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Gratiot County Community Mental Health Services
Alma, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gratiot County Community Mental Health Services (the Board) as of and for the year ended September 30, 2006, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated November 14, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 14, 2006



MANAGEMENT LETTER

Board of Directors
Gratiot County Community Mental Health Services
Alma, Michigan

In planning and performing our audit of the financial statements for Gratiot County Community Mental Health Services for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 14, 2006, on the financial statements of Gratiot County Community Mental Health Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 14, 2006

Provide Health Savings Accounts

Due to increasing costs of providing health insurance to the Authority's employees, we believe the Authority could take advantage of health savings accounts as a means of cost reductions while minimizing the additional cost to employees.

Health Savings Accounts were established by the Medicare Prescription Drug and Modernization Act of 2003. These accounts operate like IRAs and allow eligible individuals to make a tax-deductible contribution to cover the cost of the deductible of a high-deductible policy. To be eligible to make a contribution, the deductible must be at least \$1,100 for single coverage and \$2,200 for family coverage. The contribution is limited to \$2,850 for single coverage or \$5,650 for family coverage. These amounts will be inflation adjusted each year. The contribution limits for individuals 55 or older are allowed to be increased in accordance with IRS Regulations. The individual can take tax-free withdrawals from the account to pay for the deductible when obtaining health care under the insurance policy.

Health Savings Accounts have several beneficial features:

- On the individual's tax return, the deduction is claimed above the line for arriving at adjusted gross income, so individuals can claim it whether they itemize or not.
- There is no phase-out to the deduction for higher-income individuals like there is with an IRA.
- Any income earned on amounts in the account is tax-free for federal income tax purposes.
- Contributions not withdrawn for medical expenses can remain in the account to build a reserve for future years' expenses.
- Money can be withdrawn from the Health Savings Account to pay for qualified medical expenses. Any money withdrawn for other reasons will be subject to a 10 percent penalty and taxation. HSA holders over 65 years of age may use the account as a retirement nest egg and withdraw money for any reason without penalty.
- The Authority may, but need not, make deductible contributions for its employees; employer contributions are not subject to employment taxes and are not taxable to the employees.

A number of insurance companies offer high-deductible plans designed to enable employers of all sizes to take advantage of health savings accounts. Some insurers will also provide administrative services for the savings accounts.

Maximize Investment Income

We believe the Authority should re-direct a portion of available cash into higher yielding certificates of deposits in order to increase investment income earned.

We therefore recommend management to (1) determine the maximum amount available to invest without interrupting immediate cash flow needs and (2) inquire with various financial institutions of rates of returns being offered on certificates of deposits.